

Message Text

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44

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 NEA-11 SCI-06 AGR-20 CEA-02

CIAE-00 COME-00 DODE-00 FRB-02 H-03 INR-10 INT-08

L-03 LAB-06 NSAE-00 NSC-10 PA-04 RSC-01 AID-20

CIEP-02 SS-20 STR-08 TAR-02 TRSE-00 USIA-15 PRS-01

SPC-03 FEA-02 OMB-01 DRC-01 /198 W

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POUCHED INFO ALL CONSULATES IN CANADA FOR INFO

E.O. 11652: N/A

TAGS: ENRG CA

SUBJECT: ENERGY: FEDERAL-PROVINCIAL ENERGY CONFERENCE

1. DURING COURSE OF ECONOMIC COUNSELOR'S CALL ON JACK STABBACK, NATIONAL ENERGY BOARD (NEB) MEMBER, ON JAN 28, STABBACK WAS ASKED HIS IMPRESSIONS OF OUTCOME OF JAN 22-23 FEDERAL-PROVINCIAL ENERGY CONFERENCE. STABBACK, WHO WAS PRESENT AT CONFERENCE, RESPONDED "YOU TELL ME WHAT HAPPENED." EMBOFF HAS RECEIVED SIMILAR RESPONSES TO SAME QUESTION PUT TO OTHER OTTAWA OFFICIALS CONCERNED WITH ENERGY MATTERS. PERHAPS MOST ASTUTE COMMENT OVERHEARD BY EMBOFF ON LAST DAY OF CONFERENCE WAS THAT IT WAS A CONFERENCE NOT REPEAT NOT DEVOTED TO FORMULATING A NATIONAL ENERGY POLICY (AS IT HAD BEEN BILLED) BUT ONE CONCERNED SOLELY WITH INCOME REDISTRIBUTION. ONLY CONCRETE RESULT WAS SHORT-TERM (UNTIL MARCH 31) EXTENSION OF VOLUNTARY PRICE FREEZE ON DOMESTICALLY PRODUCED CRUDE AND AGREEMENT THAT FOLLOWING FREEZE CANADA SHOULD HAVE ONE-PRICE OIL. THE BIG ISSUES

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(WHICH MAY PROVE INSOLUBLE) TO BE FACED DURING THE NEXT

TWO MONTHS CENTER ON WHAT THAT ONE-PRICE SHOULD BE AND HOW QUICKLY OR SLOWLY IT SHOULD BE PHASED IN. VAGUE FEDERAL GOVERNMENT PARAMETERS ARE THAT PRICE SHOULD BE "FAIR" TO PRODUCING PROVINCES, "REASONABLE" FOR CONSUMERS, "BELOW" WORLD MARKET PRICE, "ADEQUATE" FOR ENCOURAGEMENT OF INDUSTRY EXPLORATION AND DEVELOPMENT ACTIVITIES, AND NOT PROHIBITIVELY EXPENSIVE FOR FEDERAL GOVERNMENT WHICH WILL HAVE TO PROVIDE PRICE SHELTER TO EASTERN CANADA AND FAC POSSIBILITY OF INCREASED EQUALIZATION PAYMENTS TO "HAVE NOT" PROVINCES.

2. ONE IMMEDIATE PROBLEM RESULTING FROM THE CONFERENCE, AS NOTED BY STABBACK, CONCERNS THE "CONCESSION" GIVEN BY THE FEDERAL GOVERNMENT TO SASKATCHEWAN TO INCREASE ITS WELL-HEAD PRICE FROM \$4 TO \$5, OR TO \$6 IN THE CASE OF EXPORTED CRUDE. APPARENTLY, SASKATCHEWAN INTERPRETED THIS DECISION TO MEAN THAT ITS ALLOWABLE OIL PRICE INCREASE FOR EXPORTS WOULD RESULT IN A LOWERING OF GOC'S EXPORT TAX BY EQUIVALENT AMOUNT, THUS KEEPING U.S. DELIVERED PRICE (EX TRANSPORT COSTS) FOR FEBRUARY AND MARCH AT APPROXIMATELY \$10.40 PER BARREL. SIMILARLY, SASKATCHEWAN REPORTEDLY ASSUMED THAT ALLOWABLE INCREASE IN PRICE FOR DOMESTIC OIL TO \$5 PER BARREL MEANT SLIGHT THAW IN PRICE FREEZE. NEITHER ASSUMPTION, HOWEVER, APPEARS TO BE SHARED BY OTTAWA. FEDERAL OFFICIALS APPRENTLY HAD IN MIND, IN CASE OF DOMESTIC SALES, THAT INCREASED PRICE WOULD BE ABSORBED AND NOT PASSED ON TO CUSTOMERS. IN CASE OF EXPORTS TO U.S., OTTAWA POSITION IS THAT SASKATCHEWAN CAN INCREASE ITS PRICE IF U.S. CUSTOMERS ARE WILLING TO PAY THE INCREMENT ON TOP OF THE \$6.40 EXPORT TAX WHICH BY LAW MUST BE COLLECTED BY THE FEDERAL GOVERNMENT. ONE WAY OUT OF DILEMMA, ACCORDING TO STABBACK, WOULD BE FOR GOC TO REFUND PORTION OF EXPORT TAX TO SASKATCHEWAN, BUT THIS IS NOT LIKELY.

3. STABBACK NOTED REPORTS THAT DOMESTIC PURCHASERS OF SASKATCHEWAN CRUDE ARE CANCELLING FEBRUARY ORDERS AND APPLYING FOR NOW LOWER-PRICED ALBERTAN CRUDE. TO EXTENT THAT SASKATCHEWAN CUSTOMERS SWITCH TO ALBERTA SUPPLIES THERE WILL BE LESS ALBERTAN CRUDE AVAILABLE TO U.S. LIMITED OFFICIAL USE

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IMPORTERS. THIS SITUATION WOULD PROVE EMBARRASSING TO NEB WHICH HAS ALREADY SET FEBRUARY ALLOCATIONS FOR EXPORT TO U.S. STABBACK SAID NEB MIGHT BE FORCED TO RECALL THE ALLOCATION AUTHORIZATIONS AND RESET THEM ACCORDING TO CHANGED CIRCUMSTANCES WHICH MAY BE OCCURRING WITH REGARD TO SASKATCHEWAN CRUDE. WHILE STABBACK THOUGHT IT POSSIBLE THAT U.S. CUSTOMERS WOULD PAY THE ADDITIONAL COST, AT WORST SASKATCHEWAN MIGHT FIND NO TAKERS FOR ITS

OIL AND HAVE TO SHUT-IN (SEE REFTEL B).

4. FOR FULL REPORTING, AS REQUESTED BY REFTEL A, ON
FEDERAL-PROVINCIAL ENERGY CONFERENCE, SEE FOLLOWING
OTTAWA TELEGRAMS: 209, 212, 213, 216, 233, 237, 238,
AND 246.
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